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The Accounting Profession

In Flux or in Trouble?

By Wayne A. Label

Editor's Note: *This article is the text of the address given at the opening session of the 1987 ASWA Spring Conference held May 12-17, 1987, at Albuquerque, New Mexico.*

The accounting profession is experiencing major changes and is being scrutinized by many groups including the Congress of the United States. John Dingell, chairman of the House sub-committee on Energy and Commerce is leading the main investigation. Mr. Dingell has indicated that "... there is a very large problem, or a very large group of very substantial problems, with regard to accounting behavior" [1985, p. 8].

Even the most unbiased observer would conclude that some of the attacks on the profession have been correctly alleged. Of the 128 cases reviewed by the AICPA's special investigations committee, only eight were referred to the Institute's professional ethics division with a recommendation for future investigation [Wyden, 1986]. Congressman Dingell's evaluation of the profession's regulatory system is that "the accounting profession's self-regulatory system operates in secrecy and has not disciplined a single firm involved in well-known audit failures" [1985, p. 10]. Is it possible that the concept of self-regulation is itself oxymoronic?

The profession has only helped to add fuel to the fire. In 1986, while the Dingell Committee was investigating the profession, the chairman of the AICPA could only say preliminary findings indicate "that there may be substandard work being performed by some members of our profession" [Berton, 1987]. Then, in April 1987, in a mail ballot of the AICPA membership, an insufficient number

of "yes" votes was cast to pass the proposed amendment to the bylaws that would require mandatory SEC practice section membership. Currently, the AICPA program is only voluntary. J. Michael Cook, the current chairman of the AICPA, indicated "... that in view of the vote, the Institute will strongly support a similar proposal by the Securities and Exchange Commission for mandatory peer review" [Berton, 1987]. Intervention by the Federal Government is exactly what we in the profession want to avoid, and yet here we have another example of not being able to regulate ourselves.

There is hope for the profession and the self-regulation of it if we within the profession take note of the criticism and make major changes within a very short period of time. The American Society of Women Accountants has played a major role in the past and has an even larger role to play in the future because of the increasing number of women in the profession.

A Profession In Flux

Major changes have occurred in the structure of American business in recent years. There has been a steady decline in the "smokestack" industries and rapid growth in the service industries. With the proliferation of small closely held businesses and self-employed persons, the average size of companies is decreasing in spite of the recent flurry of mergers and acquisitions. In addition, there has been a great increase in international business in the United States as evidenced by an increased number of international companies and international joint venture operations.

The increase in international commercial activities has led to the formation of several major standard

setting organizations. Examples of some of these organizations are:

- The International Accounting Standards Committee (IASC)
- The International Federation of Accountants (IFAC)
- The International Auditing Practices Committee (IAPC)
- The European Economic Committee (EEC)

Comparability of financial statements between similar businesses of different countries is even more important today than it was thirteen years ago when the IASC was formed. Perhaps complete harmonization will never be achieved, but for the sake of world commerce, there must be much improvement of current practice.

Public Opinion. Recently, the accounting profession was the object of a public opinion poll by Louis Harris [1986]. The results of this poll, which queried the public about several professions, was both complimentary and useful to our profession. By any standard, the reputation of CPAs and the accounting profession came out very high. On balance, when all of the attributes are viewed as a whole, CPAs are very well rated on such pivotal dimensions as:

- Honesty
- Competence
- Reliability
- Objectivity

However, there are also several areas indicated in the poll that ought to be of concern for our profession and where changes must be made.

Regulation of the Profession. The poll indicated the public is worried about the unscrupulous CPAs and wants definitive action to be taken to rid the profession of them. How much time the accounting profession has before a major hue and cry for stricter regulation emerges cannot be determined. But it must be assumed such demands could be imminent if measures are not taken immediately from within.

Enforcement of Professional Standards. The Harris poll report indicated that people want a tougher system of enforcement of professional standards than exists today. We are being given another window of opportunity, and we must move fast to take advantage of it before it

closes. The ultimate risk, of course, is that government is hovering over us ready to seize on any failure of the standards enforcement process.

The Public's Expectations. One of the main conclusions of the poll indicated:

... in short, CPA's problems lie not in their worth being hidden under a bushel, largely unappreciated. It is just the opposite. They are riding so high in esteem that their risks are that they will fall short of the soaring expectations. If they fall from grace on a few highly visible items, the backfire and the criticism can be far out of proportion to what has been done wrong. [Harris, 1986].

Part of the expectation problem on the part of the public is represented by their complaints against the accounting profession in the area of conflict of interests in dealing with their clients.

Congressional Investigation

Congressional concerns generally mirror those of the public. Congressman Dingell has indicated his concern by stating, "Accounting firms are moving into many related fields ... In some cases, we're finding some very great conflicts of interest. In other instances, they have demonstrated an extraordinary lack of competence" [1985, p. 11]. I must pose the question, does it really matter whether the statement made by the Congressman is based on reality or perception?

Proposed Legislation. As far as legislation is concerned, Congressman Dingell's attitude thus far has been that "accountants are supposed to regulate themselves. It is my pious hope that they will proceed to do so with some speed so as to obviate any necessity for federal legislative or regulatory action" [1985, p. 9]. Nevertheless, one of the members of the Dingell sub-committee, Mr. Ron Wyden, has introduced legislation entitled, "The Financial Fraud Detection and Disclosure Act." Mr. Wyden indicated that he was introducing the bill because in the sixteen hearings conducted by the Subcommittee on Oversight and Investigations during 1985 and 1986,

... the subcommittee compiled an overwhelming record of devastating financial frauds. Again

and again, the sub-committee found that independent auditors have failed to detect or to report fraudulent activities at a number of major corporations and financial institutions in this country [1986, p. 6].

Mr. Wyden gave several examples including E. F. Hutton, United American Bank, Penn Square Bank, E.S.M. Government Securities, Home State Savings Bank of Ohio, and American Savings and Loan of Florida.

Mr. Wyden's major concern and his major reason for introducing the bill into Congress were that current accounting and auditing standards only require the auditor to inform corporate management of errors and irregularities and to consider resigning from the engagement. Wyden felt that current Generally Accepted Auditing Standards may help protect accountants from lawsuits but do little to protect the consumer from fraud and illegal activities.

Part of the expectation problem on the part of the public is represented by their complaints against the accounting profession in the area of conflict of interests in dealing with their clients.

Wyden reminded lawmakers that the accounting profession was put on notice ten years ago (referring to both the Metcalf and Moss investigations by Congress in the mid-1970's) that the public legitimately expects independent auditors to make reasonable efforts to detect and report financial fraud. Finally, the Congressman stated that the only response of the accounting profession from the Cohen Commission Report of 1978 to the Treadway Commission Report of 1987 was to indicate that it would study the issue, but it has taken no effective action. Whether this statement is true or only perception on the part of the Congressman may not matter at all as far as the gap is concerned in the public's perception of the accounting profession's ability to self-regulate.

Bridging Regulation And Expectations Gaps To Maintain Credibility

The profession is under pressure now to respond to the criticisms being leveled against it. Congress and the public may not grant us any more grace periods before action is taken, action that may not be appreciated or beneficial. Currently, there are several efforts underway by the profession that hopefully will bear fruit.

The National Commission on Fraudulent Financial Reporting (The Treadway Commission). Formed in direct response to the Dingell Committee, this commission has made several recommendations. Most important among these recommendations are:

- Mandatory Audit Committees should be used for all publicly owned corporations.
- Audit Committee Chairman's letter should be submitted to the stockholders.
- Management should acknowledge in writing to stockholders that it has the foremost and ultimate responsibility for accurate financial statements.
- The risk of fraud should be assessed and monitored continuously by the management and reviewed annually.
- Internal controls should not be structured mechanically. The correct emphasis should be on the overall control environment.
- Corporate management should be required to express an opinion on the adequacy of internal controls.
- There should be a mandatory internal audit function for all public companies.
- Companies should have a written code of conduct which, among other things, deals with the obligation to account accurately to stockholders. It should be updated as a "living code."

The Anderson Committee. Another project just completed by the AICPA and under consideration by the members is the restructuring of the Code of Professional Ethics. The major reasons given by the Committee for the recommended changes are 1) to improve the art of accounting; 2) to maintain public confidence;

and 3) to carry out professional responsibility for self-governance. Several of the proposals by the Anderson Committee have already met with difficulty in passing the necessary two-thirds majority vote of the membership or of even making it through the Council vote to be presented to the membership. There are several excellent recommendations of this committee that hopefully will be implemented. Once again, if action is not taken by the profession, we will be playing into the hand of the federal government to indicate that we can't meet one of the major objectives of the Anderson Committee — "to carry out professional responsibility for self-governance" [AICPA, 1986].

The Future of Accounting Education Report (The Bedford Report).

Another strong effort being made by the profession to bridge the expectation gap on the side of education is The Bedford Report. One of the major problems we have had in the field of education is that frequently many of the institutions responsible for educating accountants fail to evolve as rapidly as professional practice itself. The accounting profession is expanding with new expectations of those who enter it. The report concluded that the current state of most professional accounting education programs is inadequate to meet the needs of this expanded profession. The major problem facing the academic world is that the curriculum has remained virtually the same over the past fifty years. As the profession has grown and the demand for a greater knowledge base has expanded, many colleges and universities in the United States have continued to teach within the same structure. A growing gap exists between what accountants do and what accounting educators teach.

Currently, there are four states that have state laws requiring a minimum of five years of education for certification within their state. The need for expanding accounting education to a five-year requirement is recognized in the Anderson Committee report and in the Bedford Report and is alluded to in the Treadway Commission study. It is time that both academicians and practitioners realize that without making this change, students graduating

with accounting degrees will not be prepared to perform in the changing and complex business world.

Role Of ASWA

The increasing acceptance that women are encountering in the accounting profession is only a recent phenomenon. In 1923, when the following observation appeared in the December issue of the *Journal of Accountancy*, times were a little different.

The fact of the matter is, women are not wanted as accountants on the staff of practicing public accountants; in a word, then, the prospects for women in the field of accountancy are not brilliant. As to the public field, it must be admitted with regret that the woman who succeeds is the rare exception [Richardson, 1923].

Times have changed a great deal since this editorial was written. The number of women in the accounting profession grew from 82,000 to 379,000 between 1960 and 1980, a fourfold increase. Fifty percent of accounting graduates today are women, and experts predict that the number will increase significantly by the year 2000.

A growing gap exists between what accountants do and what accounting educators teach.

As more women enter the profession, the role of ASWA is increasing. Women accountants of today have an important responsibility to mentor the women coming into the profession. Those in the profession need to differentiate between mentoring and mothering.

Pacing, to control mental and physical stress, is another area that must be carefully considered in the plans of one's future. Studies show that as women assume more stressful workloads, they tend to contact traditional male diseases, many of which are stress related. Women, like their male counterparts, must learn to control this stress and pace their lives better than accountants have been able to do in the past.

If anyone is going to have an opportunity to "humanize the workplace," the women in ASWA have the best opportunity. Since women are the ones that are most affected by the pressures of both work and home, they have to take the lead, for no one else will do it for them.

One other area that has affected women more than men is what has been described as the "glass ceiling" [Hymowitz, 1986]. This phenomenon implies that women can only go so far within an organization before they hit an imaginary ceiling that restricts their advancement. Whether this ceiling is caused by the "good old boy networks" or by other outside forces really doesn't matter. What matters is that one of the goals of women accountants, as well as the ASWA, is to work towards shattering the glass ceiling.

Conclusion

All aspects of the accounting profession are in flux today, from expanded services to legal liability to self-regulation to internal controls to restructuring the Code of Ethics. The knowledge and skills used in providing these diverse services extend far beyond the technical expertise traditionally required to audit financial statements. Therefore, it is time that we in the profession answer some very important questions: What is the accounting profession? What is the profession going to become? What should the profession be like in the year 2000? I suggest to you that we are on a sinking boat if the system does not change quickly. The John Dingells of the world are not undermining the profession, we are doing it to ourselves.

I must emphasize that I am not discouraged, only concerned and challenged. We must work hard together in the near future if we want this profession to succeed. ASWA can and must play an important and critical role in this transformation.

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Accounting in Literature (continued from page 25)

But Ratliff is to be denied his victory. Flem dramatically reveals to Ratliff something that Ratliff is now aware of — that Isaac is feeble-minded, an incompetent. Ratliff is shocked at Flem's callousness and wants no part of Flem's trading of Isaac's money. He gives Mrs. Littlejohn, Isaac's keeper, some cash to hold for Isaac's benefit, but we do not learn the amount until 116 pages later when Mrs. Littlejohn uses it to buy a cow for Isaac. (Isaac has fallen in love with the cow.) If the reader has not followed the earlier transactions, the sum of \$16.80 paid for the cow is meaningless. The amount turns out to be exactly Ratliff's profits on the goats and the sewing machine. From Ratliff's point of view, he has broken even financially and won a moral victory over Flem as well. With a further show of righteousness, Ratliff decides to burn Flem's three-year-old note for \$11.80 and put an end to the repugnant trading on Isaac's condition. But in doing so, Ratliff has inadvertently paid off Flem's liability. Mulling over his defeat, Ratliff thinks

I just never went far enough. I quit too soon. I went as far as one Snopes will set fire to another Snopes's barn and both Snopeses know it, and that was all right. But I stopped there. I never went on to where that first Snopes will turn around and stomp the fire out so he can sue that second Snopes for the reward and both Snopeses know that too. [p. 89]

He sends a message to Will Varner saying "it ain't been proved yet" that anyone can risk fooling with a Snopes.

Readers who do not attend to the precise and complex flow of account-

ing transactions in *The Hamlet* are missing an essential component of Faulkner's intended effect. The careful reader, the practiced accountant, will be the one to find the greater pleasure in watching these transactions subtly unfold in this major American novel. Ω

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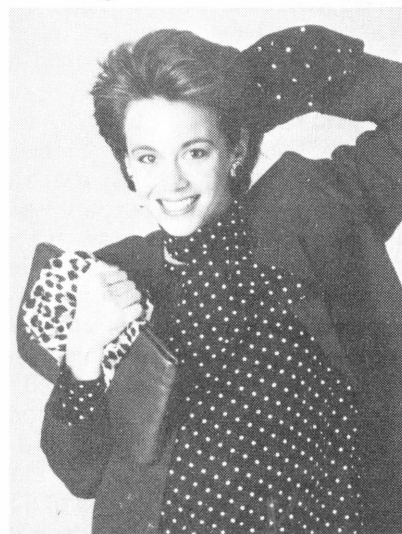
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